

Henderson Ridge Consulting, Inc.

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April 8, 2021

Louisiana Public Service Commission
Kathryn Bowman
Executive Counsel
602 North Fifth Street (Galvez Building) (70802)
P.O. Box 91154
Baton Rouge, Louisiana 70821-9154

Re: RFP No. 21-07 – Docket Nos. TBD

Atmos Energy Corporation, ex parte.

In re: Rate Stabilization Clause filings for its Louisiana regulatory division for Test Years 2020, 2021, and 2022.

Dear Kathryn,

Henderson Ridge Consulting is pleased to respond to the March 24, 2021 Request For Proposal to assist the Staff of the Louisiana Public Service Commission (“LPSC” or “the Commission”) in the review of the annual Rate Stabilization Clause (“RSC”) filings to be submitted by the Louisiana regulatory division of Atmos Energy Corporation (“Atmos” or “AEC”) for Test Years 2020, 2021, and 2022. As noted in the RFP, Atmos is required to make the annual RSC filings by March 31st of each year for the test year ending on the preceding December 31st. Under the terms of the RSC recently approved by the Commission in Docket No. U-35535, Staff has until June 15th or 75 days after the RSC is filed by Atmos to review the filing. As explained in further detail in our proposal, we anticipate that the evaluation of the three RSC test years will total \$139,500.00 in professional services and \$3,600.00 in travel to attend the Commission’s Business and Executive Sessions for a total project budget of \$143,100.00 for the three year term of the RSC.

Scope of Representation

As defined in the RFP, the consultant retained by the Commission will undertake an examination of the annual RSC filings submitted by Atmos for Test Years 2020, 2021, and 2022. In addition to conducting a comprehensive evaluation of the RSC test year filings, the consultant is requested to work with Atmos on a mutually agreeable accelerated amortization schedule for approximately \$44 million of Excess Deferred Income Taxes (“EDIT”) beginning with the RSC Filing for the 2020 Test Year.

Summary of Work Plan

In the matter of the annual RSC filings, Henderson Ridge Consulting will conduct a comprehensive review of reported test year earnings and determine whether the calculation of the revenue requirement, the allocation of costs and investment from other divisions and headquarters, and the proposed revenue adjustment are consistent with the terms of the RSC as recently approved by the Commission in Docket No. U-35535. In addition to our evaluation of the Per Books and RSC-adjusted earnings, we will determine whether additional adjustments should be made to the test year results for extraordinary and/or unusual items and expenses that are not appropriate for recovery from ratepayers.

The major services, procedures, and tests that will be performed include but are not limited to:

- Examine the documentation in support of each adjustment made by Atmos to the test year results;
- Confirm the accuracy of each adjustment;
- Prepare formal discovery and review responses;
- Perform a detailed review of the test year trial balance and general ledger activity;
- Conduct tests of accounts and examine documentation in support of specific transactions;
- Perform trend analyses of major expense categories in order to identify year-to-year swings in reported activity;
- Perform common size analyses of certain balance sheet and income statement accounts;

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Atmos Energy Corporation RSC Filings for Test Years 2020, 2021, and 2022

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- Work closely with Atmos to develop a mutually agreeable amortization schedule for the accelerated flow-through of Excess Accumulated Deferred Income Taxes;
- Meet and hold conference calls with the Staff and Atmos representatives;
- Prepare final report and/or testimony in support of recommendations;
- Attend Business and Executive Session; and
- Provide general support services throughout the engagement.

The RSC Test Year 2020 filing represents the first test year submittal by Atmos under the terms and conditions of the three-year term RSC approved by the Commission in Docket No. U-35535. Based upon our experience with Atmos in negotiating the terms and conditions of the current RSC, we will closely scrutinize certain areas of the RSC filings that could affect the determination of the annual revenue adjustment. These areas of potential concern include the calculation of the overall rate of return on rate base, the expense levels of the former Louisiana rate division Trans Louisiana Gas Company, the calculation of the Operations and Maintenance Benchmark Savings Adjustment, and the agreed-upon cap on O&M expenses.

Experience of Henderson Ridge Consulting

Henderson Ridge Consulting is very experienced with the filings of the Louisiana Division of Atmos. Most importantly, our firm served as the Commission's consultant in Docket No. U-35535 – the proceeding in which the terms and conditions of the current RSC that will be in effect for Test Years 2020, 2021, and 2022 were negotiated between the Staff and Atmos. We have also been retained by the Commission for several other important Atmos proceedings, including the RSC evaluation of the 2019 Test Year,¹ the docket to consolidate the two Louisiana rate divisions,² and the most recent audit of the Louisiana Division's monthly Purchased Gas Adjustment filings.³ Our firm has also

¹ Docket No. U-35525.

² Docket No. U-35122.

³ Docket No. U-35708.

worked with the Atmos regulatory divisions on hedging practices and programs, including the renewal of the most recent Asset Management Agreement.⁴

A firm resume has been attached to the proposal and provides further background on our experience and prior engagements. Our firm has been retained by the Louisiana Public Service Commission for over twenty five years to assist Staff in numerous dockets covering the myriad requests, issues, and audits of utilities under the Commission's jurisdiction. These engagements have involved gas local distribution companies, electric utilities, telecommunications service providers, and water and wastewater utilities.

Minimum Requirements

Henderson Ridge Consulting is experienced in analyzing the operations and the books and records of gas local distribution companies, electric utilities, telecommunications service providers, and water and sewer companies under the jurisdiction of the Louisiana Public Service Commission. This experience has been applied for the purpose of setting just and reasonable rates. To that end, the firm has experience with several approaches to determine the utility's revenue requirement and under different forms of regulatory oversight.

As discussed in the Experience section of our proposal, the proceedings for which the Commission has retained Henderson Ridge Consulting has required detailed knowledge of the ratemaking treatment and principles specific to gas local distribution companies. We have reviewed the list of minimum requirements identified in Section III (A) through (I) of the Commission's RFP. Our firm is experienced with each of the minimum requirements and can readily satisfy this group of standards that the Commission expects of its consultants.

⁴ Docket No. S-34879.

Estimate of Cost

Henderson Ridge Consulting anticipates that the review of the annual RSC filings submitted by the Louisiana Division of Atmos can be conducted in a cost-effective manner. The professional fees for the project are estimated at \$46,500.00 for the review of each annual RSC filing for Test Years 2020, 2021, and 2022. The total professional fees of \$139,500.00 (\$46,500.00 for each RSC test year evaluation) are based upon an hourly rate of \$150 for William Barta. Travel-related expenses are anticipated to be \$1,200.00 for each RSC test year filing, or \$3,600.00 in total, for a total project budget of \$143,100.00.

Conflict of Interest

Henderson Ridge Consulting has no current assignments, or any prior assignments, that could pose any conflicts of interest, or the appearance of such conflicts, including, but not limited to, any work performed on behalf of the Louisiana Public Service Commission.

Henderson Ridge Consulting appreciates the opportunity to respond to the RFP and to continue its relationship with the Commission and its Staff.

Sincerely,

William Barta
Principal